Plastic Money in Utah

Credit Trend Good for Merchants

By Curtis Mortensen

Despite the recent controversy over interest rates, the credit card trend is on the rise.

Using convenient credit has taken much of the sting out of consumer buying, in effect bailing consumers out of urgent bills when cash flow is a concern. Merchants, too, rely on credit cards. A consumer armed with a line of credit tends to spend more. Despite recent controversy over pending congressional legislation to limit interest rates, America's—and Utah's—dependence on plastic money has become a virtual stranglehold.

Credit card purchases now total about $500 billion nationally. As new technology makes card processing more efficient and more industries incorporate card usage, this figure seems destined to rise.

Jeff K. Thredgold has watched the latest interest-rate controversy with interest. Thredgold is a senior vice president and chief economist for KeyCorp, the parent company of Key Bank of Utah. "What many consumers don't realize is that the 18 to 19 percent interest rates in question come mostly from national bankcard institutions and their aggressive marketing strategies. The typical consumer will have been solicited several times by mail or phone with preapproved credit offers leading to marginal borrowers and increased losses. They use higher rates to balance it out. Local banks, especially in the Utah market, tend to have lower rates."

Plastic to the Rescue

But many consumers appear content with their present plastic relationship. With total retail sales in Utah now near $10 billion, credit cards command an economic impact of some $3 billion annually.

Merchants in Utah rely on credit cards for an average of one-third of their retail sales. During peak sales periods, such as Christmas, plastic money amounts to 40 percent of Utah's total sales, according to banking sources.

Mohsen Panah, an owner/partner of five businesses in Utah and California, says his livelihood depends on plastic. "Depending on what type of business you have, if you don't take credit cards, you are going to be much less competitive or not competitive at all. You have to be flexible, give your customers as many options as possible if you want their loyalty."

Lower Costs for Merchants

Technology is also a factor in increasing card usage. Electronically transferring data from merchant location to bank or processor has led to lower processing costs for merchants. Utah merchants can now choose from a plethora of computer gadgetry and communications systems including phone lines, radio frequencies, and perhaps coming soon to Utah, satellite communications.

Virginia-based Sky Gate Communications offers a wireless point-of-sale terminal that communicates with a satellite dish, relaying transaction data via satellite to bank or processor. This brings cost-effective electronic transfer to remote retailers where phone-line availability is problematic. Says Sky Gate's president Mike Hrinko, "We've been very successful in locations like Mexico, Europe, the Caribbean Islands, even Disney World in Florida, wherever phone lines are less available or less cost effective."

As local banks labor to bring up-to-date technology to the remote, smaller communities of Utah and surrounding states, Hrinko hopes to see his affordable service available in Utah within the next year or so.

With debit cards (a card from which charges are deducted from a checking or other account rather than a line of credit), several other industries are anxious to join the credit card act. Long-distance phone companies may soon be joined by health-insurance companies. Health Systems, a Midwest firm, has already developed a magnetic stripe card for health-insurance billing and record keeping. Although nationally available early this year, the health-insurance card has not been implemented in Utah.

Area businesses, like taxi services, fast-food restaurants, and pizza delivery outlets, are already test marketing credit-card usage.

Drowning in Debt

Adds Thredgold, "Credit cards may be seen as less desirable in recent years. There's no more tax deduction on interest. And a competitive economy gives people many opportunities to overextend. Credit cards can still be a smart use of credit, but you have to practice financial responsibility."

Some merchants with lower profit margins, such as gas stations, have long struggled with the practice of passing on card processing fees to their customers while trying to remain competitive. Maverick Country Stores is a gas and minimart outlet with 112 stores in eight states including Utah. They recently posted signs on their gas pumps warning that they will no longer accept major credit cards.

Maverick president William Call explains, "Card-processing costs add about 4 cents per gallon to our prices. By removing that, we intend to be more competitive. Also, cards accounted for only about 12 percent of our retail volume. We feel that discontinuing cards will enable us to appeal strongly to a larger segment of the public—the 88 percent who prefer to save money by paying through other means." Whether this is an exception or a growing trend is yet to be seen.

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Thredgold feels that legislated rates will force financial institutions to become less generous lenders, making the current credit crunch even worse. "It also sets a bad precedent for Congress to tell businesses what they must charge for their products regardless of what the market will bear."

With President Bush urging banking executives to lower their rates, some voluntary decreases seem probable in the near future.

The latest rate-limit bill is at press time tabled in Senate committee and is showing no signs of imminent resurrection. Should Congress choose to intervene or not, the rising credit card trend is showing no signs of slowing. UB

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Banks That Are Serious about Small Business

Telford of West One recommends looking for a bank with a small-business unit that specializes in lending to small businesses. Such a department signifies a bank is serious about catering to the needs of small businesses.

It's one thing to pick the right bank and another to have it pick you. As noted, good financial statements, prepared with the help of a CPA, have become practically a necessity in today's borrowing environment.

Belanger recommends inviting the loan officer to your facility. This gives you the opportunity to impress the banker with what you've built and to demonstrate your company's solvency.

Ultimately, the bank wants to know it has a real good chance of being repaid. Telford says this requires the loan request to specify a well-defined primary repayment source, a secondary repayment source and, if possible, a third one. The example he gives is this: Suppose you need money to finance a job that will generate a large receivable. The bank would get paid back when the project is completed and the receivable is collected. This is the primary repayment source. But that probably won't be enough. Cash flows from the rest of the business that are not attached to that particular job could be earmarked toward repaying the loan if the collectible doesn't work out. This would be a secondary repayment source. Then the loan request could single out a third repayment source—perhaps equipment owned free and clear that would be collateral.

You want the bank's comfort level to be high. And what makes a bank comfortable is the knowledge that barring a natural disaster, it will be repaid. Small businesspeople frequently ignore the bank's need to know it will be repaid. Instead, they ask for money for a business that isn't making any yet, and they have little notion of how the loan will be repaid. They think that if the business works out, there will not be a problem repaying the loan. That may be true, but the bank frequently isn't so sure the business will work out, and in situations like these has no fall-back collateral if the primary repayment source fails.

Though Utah's banking industry is doing well, it has learned its lessons from its recent past. More money is available today than at any time in recent years, but it's harder to get. The entrepreneur who shops around, finds the right bank, and knows how to push the banker's "buttons" will likely have little problem financing his business.

This situation will probably continue for the foreseeable future. Observers agree the local economy is likely to continue to prosper through the 1990s. Banks will be facing more competition from non-banks, such as brokerage firms and firms like Sears. But we'll also see banks moving into areas they traditionally had little presence in, such as insurance and brokerage/investment banking and real estate.

For the small businessperson, the future of Utah's banking industry has hurdles to overcome, but it presents plenty of opportunities. To tap into the local money well, the entrepreneur needs to be a bit more sophisticated and savvy than in the past. If he or she is, the industry's health will be a major benefit. UB

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the loan until it sees his completed application. Ovard's experience is probably not unusual. Transaction expenses are making it hard for loans to be economically viable.

What a Bank Needs

Part of the problem is that banks are not appropriate sources of funding for many small businesses. Not recognizing this, entrepreneurs go to the banks, get turned down, and come away thinking the banks don't want to serve the small business community.

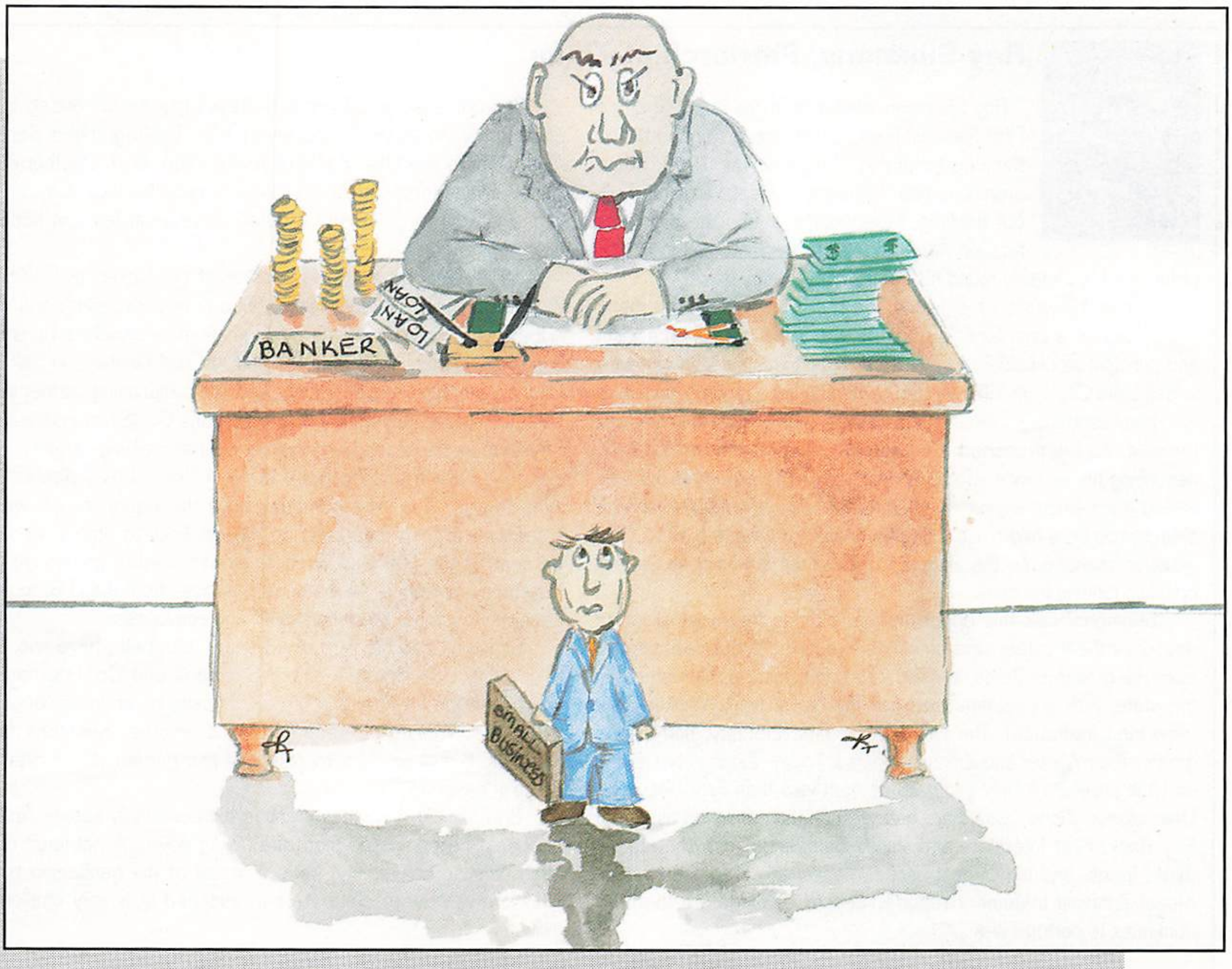
"There's a big misperception that banks provide money for everything," says Brad Bertoch, staff consultant for the Small Business Development Center. "That's not the case. The bank says, 'All I get from this loan is interest. There's no upside potential. I need collateral.' "

Bertoch goes on to note that banks are asset lenders first, then cash-flow lenders. Because the profits a bank makes on a loan are limited only to the interest, they demand collateral. Then they look at cash flow to see the feasiblity of the business paying back the loan. This places small business owners in a difficult position because many lack collateral. Gazelle Systems experienced this. It had to wait until it had built up sizable assets before it could get a loan. Enterpreneurs should go to non-bank sources, such as venture capitalists, for funding until they have something to offer as collateral. Only then does it make much sense to ask a bank for money.

Government regulations are also limiting the availability of bank money to small business. Because of the troubles in the industry in recent years, both locally and nationally, regulators are watching over the shoulders of banks more frequently and banks are being a lot stricter about their requirements when considering a loan application. "The requirements for obtaining loans are more stringent now than 12 to 18 months ago," says George Telford, senior vice president at West One. "That gives the impression that money is scarce. That's not correct."

This can be clearly seen with the quality of financial information banks now require. Telford says many small businesses traditionally applied for loans by using internally prepared financial statements. More sophisticated business owners might have CPA compiled or reviewed statements, with the highest quality statements, CPA audited, used mainly by larger businesses. What's happening now, he suggests, is that banks are moving up the ladder of quality. They no longer accept internally prepared statements for even loans as small as \$20,000 or \$30,000. They want statements a CPA has compiled or reviewed. "Small businesses need better record keeping than they used to," says Simmons of Zions Bank. "It's becoming quite commonplace for the small business to have a CPA audit."

Simmons considers this good not just for the bank, but for the small business owner as well. "A man who knows where he is has much less likelihood of going broke than one who doesn't and discovers it too late," he says.



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Expensive Money

This change presents a problem for the entrepreneur. Financial reporting requirements are becoming increasingly expensive, so much so that some loans no longer make economic sense for the small business owner just because of all the fees.

Telford says wanting audited financials is sometimes just the first added expense small businesses now face. The banks send their own internal quality auditors to study a customer's books one to four times a year. These visits are paid for by the customer and run $250 to $500 per visit. Because of new government regulations, all loans in excess of $100,000 secured by real estate need an appraisal, which is also costly.

"We're finding with small borrowers that they're walking into a bank and the banker says, 'This is what we need: we want a compiled financial statement, nothing less than quarterly financial information, maybe even monthly, plus monthly agings of accounts receivable, an appraisal, and we're going to charge you a loan fee and we're going to send in our internal auditors,' " says Telford. "The businessman looks at the transaction and says, 'This doesn't make sense anymore, economically.' "

The irony, Telford notes, is that there's an appearance money isn't available when it really is. The problem: the money's expensive.

But the astute entrepreneur can use the situation to his or her advantage. Well thought out loan proposals and savvy dealings with bankers can get the businessperson his or her money. After all, the local banks definitely have money. Those with the ability to tap the well could find ample dollars available for their business needs.

How to tap the well is the hurdle that must be overcome. Bob Belanger, chief executive officer of Salt Lake City's First Professional Bank, says intangibles are important. You want a bank that will stand behind you. "You have to know they're going to be there when you need them. If you don't get that feeling from the bank, then you're at the wrong bank," he says. To assess this, he suggests asking if the bank has experience in your industry, with whom, and if the experience was positive. It helps if the bank knows your industry, is comfortable with it, and if its history with your industry has been beneficial and profitable.

Roy Simmons, Patriarch of Zions

Roy Simmons, chairman of the board of Zions First National Bank, didn't intend to get into the banking industry. The year was 1939, not a propitious time to begin a career. "I didn't seek out banking, I just sought a job," he says. His first job was as a teller at the First National Bank of Layton. He certainly found his compatible industry quickly.

Within 10 years of entering the field, he was Utah's bank commissioner, a post he held from 1949 to 1951. He was president and principal stockholder of Lockhart Co., an industrial loan company in Salt Lake City from 1953 to 1960, when he led a group of investors who purchased Zions from the LDS church. "I had heard the bank was for sale, so I approached the church," he says matter-of-factly, describing his entrance into bank ownership. The church at the time issued a statement saying it had started Zions in the 1870s because church members had trouble getting financing. Over the years, this situation changed, so the church no longer felt it was necessary to continue running the bank.

Simmons took this opportunity and made the most of it. He describes the greatest satisfaction he's received in business coming from the growth of Zions. In 1960, the bank was the third largest in the state, with assets less than half the No. 2 bank, Walker Bank (now First Interstate). The No. 1 bank, First Security, had assets greater than Walker and Zions combined. Today, Zions is No. 2 and its Utah assets are only about 20 percent less than First Security's Utah assets. Zions' assets are greater than the combined assets of Key Bank, First Interstate and Valley Bank and Trust, the state's third-, fourth- and fifth-largest banks, respectively. The bank's most recent financial statement reported record earnings, so the bank continues to perform well.

Simmon's accomplishments haven't gone unnoticed in the community. In 1986, he received the "Distinguished Bankers Award" from the Utah Bankers Association. Both Southern Utah State College (now Southern Utah University) in Cedar City, and his alma mater, the University of Utah, have awarded him honorary doctorate degrees.

He recently gave up the position of chief executive officer at Zions in favor of his son, Harris, who is now president and CEO. Another son, David, runs the Simmons family's broadcasting empire. It includes ownership of both FM and AM radio stations in Salt Lake City, St. George, and Idaho Falls and is the managing partner in Salt Lake City-based Keystone Communications Co. Simmons describes Keystone as the second largest satellite broadcasting company in the country, with branch offices in New York, Los Angeles, and Washington, D.C. The company buys the rights to use various satellites and then rents time on the satellites to others. About 85 percent of the National Basketball Association games go over Keystone's satellites. All the news that goes from the U.S. to Japan goes via Keystone, which has about 250 employees.

Simmons and his wife of 53 years, Elizabeth, have two other sons, who own Houston-based Simmons and Co. International, which is in the financial end of the oil business, and two daughters. When not plotting strategy for Zions or other Simmons family holdings, Simmons likes to play golf and garden at the Simmons home in Kaysville.

Born in 1916, Simmons still is extraordinarily active. And like his bank, he shows no sign of slowing down. A patriarch of the Utah banking community, he is a model of the gentleman banker who knows how to compete and succeed in a very challenging industry.